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SUBJECT: Economic Briefing for May 2005

Introduction and Summary

[1](#). This cable summarizes selected recent economic events in Taiwan in May 2005:

- Lowest Growth since 2003
- FRF Funds Increased, But Not Enough
- Plans to Relax Cross-Strait Investment Restrictions
- ICPI Discusses Pharmaceutical Pricing and Reform
- HIV/AIDS Infections Skyrocket

END INTRODUCTION AND SUMMARY.

[2](#). Lowest Growth since 2003

Taiwan's economy in Q1 2005 posted its worst performance since the middle of 2003. A steady slowdown in export growth and a decline in manufacturing production prompted the Directorate General of Budget, Accounting and Statistics (DGBAS) to lower Taiwan's economic growth in Q1 of 2005 to 2.54% from the 4.03% predicted in February 2005. In addition, DGBAS lowered its estimate for real growth in 2005 to 3.63% from the 4.21% predicted in February this year. Nevertheless, a stronger local currency partly offset the impact of higher energy prices and kept inflation fairly stable. Private investment increased and unemployment continued to decline. Business circles are optimistic about future prospects. Local economists anticipate both exports and manufacturing production to pick up momentum in the second half of this year.

[3](#). FRF Funds Increased, But Not Enough

The Legislative Yuan (LY) passed legislation to increase funding for the Financial Reconstruction Fund (FRF), equivalent to RTC in the United States, to NT\$250 billion by NT\$110 billion. FRF must designate specific banks prior to July 10 that would be eligible to receive FRF funds. Three-quarters of the additional funding has already been designated for specific purposes, leaving only NT\$29.5 billion available for the FRF's discretionary use. This amount is considered insufficient to address the seven problem financial institutions (including four banks) that have already been identified by the authorities. It is likely that there are additional banks that still do not meet minimum capital adequacy requirements set by the government.

[4](#). Plans to Relax Cross-Strait Investment Restrictions

Taiwan's Ministry of Economic Affairs (MOEA) Investment Commission revealed that Taiwan is considering raising the restrictions on the amount of capital Taiwan firms can invest in the Mainland. The proposed reform would allow any firm to invest up to 40 percent of the firm's net worth in the PRC regardless of the firm's size. Large Taiwan firms are now subject to a sliding scale restriction of 20 to 40 percent of net worth depending on the size of the firm. According to the current regulations, large firms are allowed to invest up to 40 percent of their net worth for the first NT\$ 5 billion (USD 160 million); 30 percent of net worth between NT\$ 5 billion and NT\$ 10 billion (USD 320 million); and 20 percent of net worth over NT\$ 10 billion. Small and medium enterprises are limited to investment of up to NT\$ 80 million (about USD 2.5 million). Many Taiwan

firms have reached the ceiling limit. The move is aimed at preventing those firms from underreporting or listing on overseas stock markets, such as Hong Kong, in order to avoid the restrictions. Mainland Affairs Council (MAC) Economics Department Director Fu Don-cheng told AIT/T that MOEA's proposal would require further consideration and supporting measures that could delay implementation.

14. ICPI Discusses Pharmaceutical Pricing and Reform

AIT joined Academia Sinica, the Taiwan Department of Health, the International Research Pharmaceutical Manufacturer's Association and others to organize the international Conference on Pharmaceutical Innovation (ICPI), a two day academic seminar which included presentations by the world's leading health economists from the US, Japan, Australia, Canada, Korea, Europe and Taiwan. Participants discussed the problems facing Taiwan's National Health Insurance (NHI) system, the value of innovative pharmaceuticals in achieving positive health outcomes, how to appropriately reimburse for pharmaceuticals, and healthcare reform experiences in Korea and Japan. The conference was notable in that it was the first open discussion of the need for and process of healthcare financing reforms. The attendance of so many internationally renowned health economists assured that the conference results received high-level attention from DOH and the Council for Economic Planning and Development.

15. HIV/AIDS Infections Skyrocket

The number of HIV/AIDS infections in Taiwan has skyrocketed over the past year. In fact, with 1,606 new cases in 2004, the new infection rate was 77 percent higher than in 2003. The primary cause of the spike in cases is the increased number of infections among intravenous drug users. Within the IV drug group, the number of new infections among criminals and females is particularly notable.

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